1995 annual report

XENTEL

INTERACTIVE INC

Corporate Profile:

Canadian based Xentel Interactive Inc. is engaged in the business of specialized electronic commerce (e-com) and call management systems for direct marketers. Xentel is a leading integrated, value added e-com solution provider with an established clientele which include many of the the best known retailers, catalogers and travel organizations in the world. Xentel delivers digital content through various high tech media such as CD-ROM, Internet, Online, WEB-ROM, Audio Rom and Cable modem. Xentel has two operating divisions: Xentel Telephony Products Inc. and Magellan Interactive Multimedia, Inc.

Mission Statement:

To combine merchandising savvy and new media expertise to bring top retailers, catalogers, corporate brands and service providers a competitive edge and better margins through interactive selling channels. Ours is a is fully integrated approach from software development through order fulfillment.

Table of Contents

Notice of Annual General Meeting

The Annual General Meeting of the Shareholders of Xentel Interactive Inc. will be held on Tuesday June 4th, 1996 at 4pm in the Calgary Convention Centre, Glencoe Room, 120 - 9th Avenue S.E. Calgary, Alberta Canada. T2G 0P3

Financial Highlights

for the years ended December 31, 1995 and 1994

	1995	1994
Sales Revenue	$ 2,731,594	$ 1,015,661
Cost of Sales	$ 2,109,713	$ 548,041
Net Loss	$ 2,396,450	$ 424,284
Loss per Share	$ 0.08	$ 0.03
Total Assets	$ 6,823,947	$ 1,723,308
Long term Debt	$ 344,162	$ –
Shareholder's Equity	$ 5,628,545	$ 1,326,808

Share information:	1995	1994
Total Shares outstanding		
- basic	39,392,000	16,378,000
Market capitalization:		
- basic	$ 15.8 million	$ 4.1 million

All figures are in Canadian dollars

Year at a Glance

1995 Highlights

- Xentel acquired all the outstanding shares of Magellan Interactive Multimedia Inc. for $5 million in Xentel shares
- Overall sales revenues increased by 168% to $2.7 million
- Xentel expanded its established clientele base to include JCPenney, Spiegel, Netscape, Microsoft, and many others.
- Xentel strengthened both its Board of Directors and Senior Management with the addition of Brian Bullock, Richard Groome, P. Leonard Wolstenholme
- Xentel successfully completed several private placements totaling $1,731,191
- Xentel's market capitalization increased by 273%

MESSAGE TO SHAREHOLDERS

This has been a challenging and rewarding year for Xentel, a year which laid a strong foundation for future growth. In 1995 we focused on more aggressive marketing into the United States and on integrating our business plan and growth strategy to include another key acquisition.

The Company enjoyed excellent growth in 1995 increasing overall sales by 168% to $2.7 million. Xentel acquired Magellan Interactive Multimedia, Inc. of Calgary in February 1995 for $5 million in Xentel shares and changed its name from Call 900 Inc. to Xentel in April in an effort to reflect the evolution of the Company and the fact that 1-900 services no longer play a significant part in our business. With its key acquisition of Magellan, the Company now operates two divisions - Telephony Products and New Media.

REVIEW OF OPERATIONS

TELEPHONY PRODUCTS DIVISION

This division, which consists of two units - telephony systems and Audiotext Promotions, experienced considerable success in 1995. Sales of telephony systems were up by $201,576 or 28.5% while costs of sales declined from 47.9% in 1994 to 38.8% in 1995. Audiotext sales climbed to $1,033,753 in 1995, an increase of 239% over the previous year, while Audiotext costs of sales rose from 68.7% to 86.7% during the year. Audiotext services experienced an increase in cost of sales due largely to chargebacks from telcos on entertainment programs, programs which the Company is phasing out. Overall the Telephony Products division experienced a 72% growth in sales, 1995 over 1994.

Our Telephony Products operations provide telecommunications solutions and services to newspapers, product brand companies, political parties and direct marketers. Consumers enter contests and access information services through Xentel audiotext services and their touch tone telephones. American and Canadian businesses and consumers make reservations and order product by phone through purpose-built Xentel interactive voice response (IVR) applications. Telemarketers in Canada and increasingly in the U.S. use Xentel X-PRT predictive dialing systems to double productivity. The Company released version 8.0 of its X-PRT software late in 1995. Development of new software and applications has helped keep us ahead of the competition in both price and performance. Our telephony products offer the best price performance ratio in the business, priced thousands of dollars less than competitors' systems.

The Company's Audiotext operations include LoCall extended local calling service which graduated from a Calgary area test to a viable business in Calgary, Lethbridge and Edmonton, Alberta. Consumers and businesses in satellite communities around these cities do away with costly long distance calls to neighbouring communities in return for a modest annual flat fee paid in advance. The Lethbridge LoCall service is sponsored by The Lethbridge Herald newspaper which underwrites LoCall user fees for new rural subscribers to the newspaper. Newspapers in other Canadian cities are anxious to sponsor LoCall and the service will be expanded as these sponsorships are secured. The Company will bring other subscription-enhancing services to its newspaper clients.

NEW MEDIA

The New Media currently consists of Magellan Interactive Multimedia, Inc. While Magellan contributed $773,335 in sales revenues, it was responsible for 71.4% of Xentel's overall loss in 1995. However, with Magellan's aggressive marketing strategy and a better understanding of the cost benefits of electronic commerce by retailers and catalogers, the Company anticipates stronger sales in 1996.

Magellan has earned exceptional credibility with major U.S. retailers and catalogers for its leading edge electronic commerce (e-COM) services. E-COM is the process of advertising and selling products and services through CD-ROM, Internet, cable modem and other electronic channels. Forrester Research and others estimate that e-COM will become a $4.8 billion plus industry in North America by 1998. Xentel, through its wholly owned subsidiary, Magellan, is becoming a key player in that industry. Magellan provides a full range of consulting and design services, content mastering and multimedia production, electronic distribution and secure on-line transactions for blue chip clients including the likes of JCPenney, Spiegel, Eddie Bauer, Federal Express and Netscape. Distribution embraces all electronic media including Internet and the World Wide Web, CD-ROM with Web links and high speed cable modem.

We will continue to invest in Magellan's critical software and applications research and development, and in building industry alliances with companies like Microsoft and Macromedia. We are confident the Return on Investment will be significant when business and consumer buyers use e-COM in ever increasing numbers in 1997 and 1998.

Corporate Finance

In 1995, the Company completed private placements totaling $1,731,191. The Company retained Groome Capital Advisory Inc.(GCAI) in October 1995 to provide guidance and services to help the Company raise its investor profile and involve investors and institutions. Within a matter of weeks GCAI had secured $1.3 million in new capital for the Company. GCAI's involvement has led to important coverage of Xentel in Canadian and U.S. media and interest on the part of U.S. institutions and individual investors. GCAI has also opened up new alliance and business opportunities for the Company.

Share Structure

During 1995, 6,616,305 new shares were issued for cash, 140,000 for fixed assets, 16,000,000 for the acquisition of Magellan and 258,334 for the exercise of stock options. As of December 31, 1995, there where 39,391,639 shares issued and outstanding. We recognize that some investors may consider our stock somewhat diluted. However there are those who see this situation as providing additional liquidity and our strategy has led to higher share prices and an increase of over 200% in market capital.

The Company has used shares to pay for strategic acquisitions which have brought important growth and opportunity to Xentel and its shareholders. About half the shares issued in respect of acquisitions to date are subject to Alberta Stock Exchange(ASE) performance escrow provisions. Each unit acquired must achieve its business plan for the escrowed shares to be released. Moreover, the ASE places a one year hold on shares issued through private placements. Therefore, the actual public float of shares in Xentel is estimated at 12 million or 30.8% of the total issued and outstanding.

While shareholders have approved a consolidation of shares, management is of the view that such a consolidation on a "stand alone" basis would not be in the interests of shareholders as it may well result in loss of market capital.

Board and Management Developments

In December 1995, Richard Groome and Brian Bullock became directors of the Company, joining Geoff Pickering, Larry Dow and David Rosenvall. Mr. Groome brings more than twenty years of corporate finance and investment banking experience to the Company and to his role as a member of the Audit Committee. Mr. Bullock, who founded and built Intera Technologies into an industry success story, brings thirty years of entrepreneurial, technology and business development experience to the Board.

In August 1995, founding shareholder, Len Wolstenholme, joined Xentel to assist management fine-tune the Company's focus into profitable areas of business and improved investor relations. On December 1, 1995, the Board appointed Mr. Wolstenholme Chief Operating Officer of the Company. Scott Dow, President of Xentel, is focusing directly on building Magellan's position and sales in the rapidly emerging e-com marketplace. Jim Bolokoski continues to advise the Company on financial and management issues.

Looking Forward

Management expects another year of exceptional growth for Xentel. Our Telephony operation is expanding its sales team and is seeking out marketing alliances in the U.S. and overseas to cost-effectively expand its reach into new markets. Magellan is adding sales and creative staff, has initiated alliance discussions with key players in the print, advertising and technology industries, and has launched an aggressive direct sales program. Xentel will complete the acquisition of San Francisco-based CD Direct by the summer of 1996 and will selectively make strategic acquisitions which compliment existing operations where justified and desirable. The Company should achieve profitability in the fourth quarter of 1996.

As our divisions expand sales and secure new alliances, investor interest is growing in Canada and the United States. The Company will complete another private placement in 1996 and is actively researching the potential of listing on a U.S. exchange by the end of the year.

Conclusion

We thank our dedicated employees for their commitment to our Company and its mission of Making Electronic Commerce Work.

Finally, we thank you, our shareholder, for your trust and confidence. Xentel is poised to profit handsomely as electronic commerce begins to mature as an industry in the very near future. Expansion of our telephony systems sales into the U.S will also enhance profitability, as will our acquisition of CD Direct. As these events take place your trust, confidence and patience will be well rewarded.

Yours sincerely,

Geoffrey J. Pickering
Chairman and Chief Executive Officer

P. Leonard Wolstenholme
Chief Operating Officer

April 15, 1996,

BUSINESS UNITS AND MARKETS

1. Magellan Interactive was established in 1994 and acquired by Xentel in February 1995 for $5 million in Xentel shares

Magellan develops and implements integrated electronic commerce programs for top business-to-business and business-to-consumer catalogers and retailers. Magellan helps these merchandisers integrate new electronic media and channels into their merchandising plans to create new revenue at higher margins.

Catalogers and retailers who sell to consumers or businesses are coming to realize that electronic commerce can significantly reduce distribution and order taking costs. A key Magellan asset is its understanding of how to integrate these new media into merchandising and how to use them to enhance merchandising margins.

While continuing to direct market and to work with end user clients, the Company is forming strategic alliances with selected printers, ad agencies, Web hosting companies and others in key industry segments to expand its reach and sales. We will build on the established relationships these service providers have with key retailers and catalogers by providing them with state-of-the-art e-com services at reasonable cost, which they then resell to their clients. Magellan's main services and sources of revenue are:

Strategic Analysis and Design - For almost three years Magellan has assisted top merchandisers like JCPenney and Spiegel to integrate e-com solutions into their merchandising. Magellan's creative and merchandising professionals assess the merchandiser's needs and content, lead development of an integrated e-com strategy and ensure that the merchandiser's Web, CD-ROM or other electronic media presence is successful.

“ We now believe that interactive shopping will indeed be the next watershed. And we hope our readers will not repeat the history of many catalogers from the late ‘60s by ignoring the new technology and media.”

William A. Dean,
The Bruce Report,
November 1995

Multimedia Production - Magellan has developed proprietary tools based upon industry standard software which enhance and streamline content prepared for print into forms suitable for electronic media. Our production team consult at every level with our strategic analysis and design team to ensure the finished product meets the client's needs. Magellan is unique in enabling multimedia production and digital content management to be seamlessly integrated with the e-com design process. This saves time, money and costly mistakes.

Distribution - Digital merchandising content can be distributed in several new media including CD-ROM, World Wide Web, kiosk, cable modem and so on. Content mastered by Magellan for one medium can be easily and inexpensively re-mastered and enhanced for another. Through its many direct relationships with merchandisers and distribution channels Magellan offers demographically selected distribution across all viable electronic media. While e-com sales are not large now, they will be significant within 12 months and Magellan will have the distribution relationships to earn fees from thousands of sales daily.

Transaction Fulfillment - Magellan has offered secure on-line ordering on CD-ROM for a year and on Web sites for six months. By taking orders for our clients electronically through our dedicated servers we save them $4.00 to $6.00 per order. Magellan collects and has rights to all shopper data on transactions it handles.

Telephony Products Division (TPD) was established in 1986 as Teledirect Systems Inc. and acquired by Xentel May 1994 for $1 million Cdn. in Xentel shares.

TPD develops Dialogic-based telephone interactive applications and systems to enhance customer service and telemarketing while significantltly lowering related costs. Principal client groups for these systems include polictical parties, not-for-profits and direct marketers. TPD also operates audiotext-based promotions and services for newspapers and product brand companies.

Telecom Systems:

The Company develops and supplies telemarketing and interactive voice response (IVR) systems and solutions.

Telemarketing **-** These simple-to-use, UNIX-based entry level systems with 6 to 24 agent capability are priced and scaled for a target market very few competitors are addressing - and none offer comparable prices. Installations now total 900 agent stations in Canada and 200 more in the U.S. The Company also earns revenue from system maintenance agreements.

An aggressive U.S. sales effort is being initiated and management will build relationships with established vendors of telemarketing systems who currently do not have product for smaller customers. This will give us increased distribution and give them the means to build relationships with customers who otherwise would not buy from them, laying the groundwork for future upsells as these client organizations grow through more effective telemarketing.

"The Xentel system has increased our productivity many times compared to manual dialing. We use a long sales script so it's imperative to be efficient and that's exactly what the Predictive Dialing technology delivers."

Western Canadian Furnace
Shannon Stair-Manager

IVR **-** The Company provides UNIX-based, affordable turnkey order entry, customer service and reservation applications and systems. Installations include Torey Pines and City of Calgary golf courses, beer distributors, radio stations and TV stations in the United States and Canada. The system is either sold outright or we secure advertising sponsorship and provide the system free of charge, earning three to five times the retail value of the system. In the latter case the Company also owns the data.

Audiotext Promotions:

The Company supplies concept, production and hosting services and earns set-up fees, per minute fees and percentages of revenues, depending on the structure of the promotion. Also operated on behalf of newspapers are telephone interactive dating services. The Company owns all resulting data. These promotions include LoCall, sports drafts and contests.

LoCall enables residents of bedroom communities around urban areas to call other bedroom communities in the same area as a local, no charge, call. Without LoCall or similar extended local calling services users incur long distance charges for each call. LoCall is offered as an incentive by newspapers to new subscribers and the newspapers pay us a flat fee for each subscriber. With no billing costs and very low capital costs and cost of operation, LoCall will be launched in ten to twelve new Canadian markets in 1996.

Brands and newspapers use Xentel's LoCall and other promotions as sales, advertising and database creation tools. Through advertisements in print, on products and in-stores, people are encouraged to phone a specified number to enter a contest, hockey pool or other promotion using buttons on their touch tone phones. Some of these promotions are ongoing and participants continue to play through 1-900 services. The Company continues to develop and seek out innovative, attractive new promotional concepts for its clients.

Management, Discussion & Analysis

Revenues:

Revenues increased substantially by 168% to $2.7 million in 1995 from $1 million in 1994. Audiotext and telephony accounted for 91.9% of the increase, with New Media the balance. After cost of sales, the Company had revenues of $621,881 an increase of 15.8% over 1994.

The New Media division was created in 1995 when Xentel acquired 100 percent of the outstanding common shares of Magellan Interactive Multimedia, Inc. (Magellan).

Despite a dramatic increase in revenues last year, the Company lost $2,396,450 for the year, compared to a loss of $601,443 in 1994. New Media contributed $1,711,805 to that loss. This loss was expected by managment. As the name suggests, New Media will take at least another year of investing before it makes a positive contribution to the Company. Expanding the New Media segment is part of the Xentel growth strategy.

Xentel is in the final stages of acquiring CD Direct Inc., a U.S. based Company specializing in magazine and music industry CD-ROMs. This will give Xentel a much needed physical presence in the United States. CD Direct is expected to generate $1,539,000 in revenue and contribute $548,712 toward corporate pre-tax earnings for 1996.

Expenses:

Direct operating expenses increased considerably in 1995 to $3 million from $869,532 in 1994 reflecting the additional costs incurred in earning increased revenue and in expanding Xentel's business.

General and Administrative costs rose to $689,709 in 1995 as a result of an increase in permanent staff, many of whom were contributing their expertise at no cost to the Company during the start up phase. This expertise will be critical to the future success of Xentel.

The following is the corporate overhead contribution forecast for each division in 1996:

Telephony	$195,864
New Media	($155,300)
CD Direct	$548,712

Spending on marketing, and research and development increased by 184% and 472% respectively in 1995. In order to penetrate the larger U.S. market and to remain on the leading edge of technology developments, Xentel will increase its spending in theses areas in 1996. It is important to note that Xentel expenses rather than capitalizes its R&D spending.

Amortization and depreciation increased to $590,405 and $371,564 respectively last year. Xentel is using an accelerated five year write off period for these items.

Cash Flow:

The Company finished 1995 with a negative cashflow of $1,298,621. Anticipated working capital and cash at December 31, 1996 should exceed $1,000,000 and $2,000,000 respectively.

Share Capital:

As outlined at the June 1995 Annual General Meeting, Xentel will continue to grow through strategic acquisitions and increased sales.

In 1994, Xentel (formerly Call 900 Inc.) acquired Xentel Inc. for 5,000,000 shares at a cost of $1,145,000.

In 1995, Xentel acquired Magellan for 16,000,000 shares at a cost of $5,000,000.

1996 will see the acquisition of CD Direct Inc. for shares,the amount of which is yet to be determined.

As at December 31, 1995, 39,391,639 Xentel shares had been issued with a market capitalization of $15.8 million an increase of $11.7 million or 285% from 1994.

Liquidity

Xentel experienced a $ 119,800 increase in working capital in 1995.

January 9, 1996 the subscription receivable related to a private placement of $300,000 exchanged for cash.

Xentel's long term debt is convertible into 1,066,664 common shares. No liability exists to repay this debt by using cash.

Despite the large negative cash loss totalling $1,421,609 for 1995 the Balance Sheet of Xentel is strong.

Management estimates an operational loss for 1996 of $1,269,056. Currently Xentel anticipates closing a $3,000,000 US private placement by May 31, 1996. Xentel will use these funds to cover on going losses; increase sales and marketing staff to acquire additional clients in Canada and the United States; hire a U.S. based President and Chief Financial Officer; provide research and development funding to enhance existing and new Telephony and New media products; and provide additional working capital.

Business Risks and Prospects

Xentel is forecasting revenues of $6,367,250 in 1996, more than double 1995 revenues. Revenue forecasts by segments are: Telephony and Audiotext $3,238,250, a 50% growth from 1995; New Media $3,129,000, a 304% growth from 1995 (this includes revenues from the acquisition of CD Direct). Management believes these figures are realistic and attainable. The Internet/CD-Rom/ World Wide Web are becoming common solutions for merchandisers in Canada and the United States. Companies Magellan unsuccessfully marketed to two or three years ago, are now asking us to develop and enhance their electronic commerce programs.

A risk to Xentel's revenue forecasts lies with the CD Direct acquisition. Failure to conclude this deal would significantly impact on potential U.S. sales and marketing and reduce potential pre-tax revenues by $548,712 in 1996.

Changes in the value of the Canadian dollar will have minimal impact on the net income of Xentel. Telephony and Audiotext sales which account for over half of Xentel's total sales come mostly from Canadian based companies but U.S. sales will become a major factor in 1996. Both Magellan and CD Direct work principally with U.S. companies. Both invoice and are paid in U.S. dollars. Magellan's expenses are incurred principally in Canadian dollars.

New software and technology developments enhance the profile of all our divisions. Portability across many platforms allows our Magellan software tools full flexibility for a broad range of applications.

With our continued large investment in marketing and positioning, and in research and development, adequate financing is critical.

Outlook:

Management is optimistic about your Company's prospects in 1996. By strategically employing Xentel's technical and human expertise, each division will experience considerable positive growth this year. The Telephony Products division is currently in discussions with a large Canadian Newspaper chain which could result in a profitable, low risk growth opportunity for Audiotext Promotions. In addition, call minutes are up for the first quarter 1996 as compared to the same time period in 1995.

Telephony activity has increased dramatically. A telemarketing program initiated in mid 1995 identified over 500 qualified organizations who require telephony solutions. These prospects will generate increased revenue in 1996.

Our New Media business segment offers to traditional direct marketing organizations new channels to access and sell to their customers. Accessability via CD-ROM/Internet/ World Wide Web allows customers to purchase desired products and or services electronically. This new sales channel will continue to see more and more organizatons using it to increase their bottom line. No longer is this electronic commerce channel geared primarily to catalogers. Financial institutions such as the Bank of Montreal (Cebra Inc.) are entering the field and offering electronic commerce solutions. Alliances will be secured with key players in printing, advertising and electronic distribution to leverage our New Media resources and capabilities to drive greatly expanded sales.

Xentel's future looks excellent.

INVESTORS CANNOT RELY ON FINANCIAL PROJECTIONS FOUND HEREIN. PROJECTIONS HAVE NOT BEEN PREPARED IN ACCORDANCE WITH CANADIAN FUTURE ORIENTED FINANCIAL INFORMATION REQUIREMENTS.

AUDITORS' REPORT *To the Shareholders of Xentel Interactive Inc.*

We have audited the consolidated balance sheets of Xentel Interactive Inc. as at December 31, 1995 and 1994 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Calgary, Canada

March 1, 1996 Chartered Accountants

CONSOLIDATED BALANCE SHEETS *December 31, 1995 & 1994*

	1995 $	1994 $
ASSETS *[note 9]*		
Current		
Cash and short term deposits	**152,407**	21,094
Marketable securities (market value 1994 - $60,700)	—	60,700
Accounts receivable *[note 7]*	**479,602**	222,416
Capital lease receivable	**23,293**	132,525
Inventory *[note 3]*	**375,821**	319,848
Subscription receivable *[note 6]*	**300,000**	—
Total current assets	**1,331,123**	756,583
Fixed assets *[note 4]*	**3,899,744**	567,599
Other assets	**38,060**	—
Goodwill *[note 5]*	**1,555,020**	399,126
	6,823,947	1,723,308

	1995	1994
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	—	24,324
Accounts payable and accrued liabilities	**771,498**	264,170
Income taxes payable	**79,742**	108,006
Total current liabilities	**851,240**	396,500
Long term debt *[note 9]*	**344,162**	—
Shareholders' equity		
Share capital *[note 6]*	**8,024,995**	1,928,251
Deficit	**(2,396,450)**	(601,443)
	5,628,545	1,326,808
	6,823,947	1,723,308

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 1995 and 1994

	1995 $	1994 $
REVENUES		
Audiotext	1,033,753	304,835
Telephony	909,203	707,627
New Media	773,335	—
Interest and other	15,303	3,199
	2,731,594	1,015,661
COST OF SALES		
Audiotext	896,723	209,428
Telephony	352,566	338,613
New Media	860,424	—
	2,109,713	548,041
	621,881	467,620
EXPENSES		
Operating	312,535	166,760
Marketing	577,929	203,169
General and administrative	689,709	189,778
Research and development *[note 7]*	412,232	71,962
Depreciation	590,405	119,249
Amortization	371,546	90,222
Interest expense		
Long term	39,221	—
Other	11,864	—
Loss (gain) on sale of marketable securities	12,890	(10,239)
Write-down of marketable securities	—	38,631
	3,018,331	869,532
Loss before income taxes	(2,396,450)	(401,912)
Provision for income taxes *[note 8]*	—	(22,372)
Loss for the year	(2,396,450)	(424,284)
Deficit, beginning of year	(601,443)	(177,159)
Elimination of deficit *[note 6]*	601,443	—
Deficit, end of year	(2,396,450)	(601,443)
Loss per share	(0.08)	(0.03)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1995 and 1994

	1995 $	1994 $
CASH PROVIDED BY (USED IN) OPERATIONS		
Net loss for the year	**(2,396,450)**	(424,284)
Add (deduct) items not requiring cash		
Amortization and depreciation	**961,951**	209,471
Loss (gain) on sale of marketable securities	**12,890**	(10,239)
Write-down of marketable securities	—	38,631
	(1,421,609)	(186,421)
Change in non-cash working capital related to operations	**122,988**	174,009
Cash used in operations	**(1,298,621)**	(12,412)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Acquisition of Magellan Inc. *[note 2]*	**(4,964,777)**	—
Acquisition of Xentel Inc. *[note 2]*	**—**	(1,170,000)
Purchase of fixed assets	**(322,119)**	(219,278)
Proceeds on sale of marketable securities	47,810	17,954
Cash used in investing activities	**(5,239,086)**	(1,371,324)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Issue of shares on acquisition of Magellan Inc. *[note 2]*	**5,000,000**	—
Issue of shares on acquisition of Xentel Inc. *[note 2]*		1,145,000
Issue of shares for fixed assets	**42,000**	—
Issue of shares for cash	**1,809,941**	118,750
Share issue costs	**(153,754)**	—
Issue of long term debt net of issue costs	**254,754**	—
Change in non-cash working capital related to financing activities	**(259,597)**	15,000
Cash provided by financing activities	**6,693,344**	1,278,750
Net increase (decrease) in cash during year	**155,637**	(104,986)
Cash, beginning of year	**(3,230)**	101,756
Cash, end of year	**152,407**	(3,230)

Cash is comprised of cash and short term deposits net of bank overdraft.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995 and 1994

1. SIGNIFICANT ACCOUNTING POLICIES

Certain segments of the Company are in the development stage and have yet to achieve profitable operations. Their ability to achieve profitable operations is dependent upon the development of its markets and obtaining adequate financing to support these activities.

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Magellan Interactive Multimedia, Inc. since its acquisition on February 17, 1995. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Marketable securities

Marketable securities are carried at the lower of cost or market value.

Inventory

Inventories of component parts and work in process are recorded at the lower of cost or replacement cost. Inventories of finished goods are recorded at the lower of cost or net realizable value.

Sales-type capital leases

Sales revenue for equipment sold under capital leases is recognized at the inception of the lease. Finance income on these leases is recognized over the term of the lease.

Fixed assets

Fixed assets are recorded at cost. Depreciation is provided at rates designed to depreciate the cost of the assets over their estimated useful lives. Telephone, office and computer equipment are depreciated using the declining balance method at an annual rate of 20-30 percent. Software and audio-text programs and systems are depreciated on a straight line basis over five years.

Investment tax credits

Investment tax credits ("ITC's") are recognized at such time as their recovery is reasonably assured. ITC's related to the development of computer hardware and software are recorded as a reduction of the cost of the asset while ITC's related to research and development are recorded as a reduction of such expenses.

Research and development

Research and development costs are expensed as incurred.

Goodwill

Goodwill is recorded at cost and is being amortized on a straight line basis over five years.

Income taxes

The Company follows the deferral method of tax allocation accounting under which the provision for income taxes is based on earnings as reported in the accounts. Taxes are deferred principally as a result of recording depreciation and amortization expenses at rates which differ from the related claims for income tax purposes.

Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the year. Outstanding stock options and convertible debentures would not have a dilutive effect on loss per share.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Gains and losses on translation are reflected in income when incurred.

2. ACQUISITIONS

[A] Magellan Interactive Multimedia, Inc.

Effective February 17, 1995, the Company acquired 100 percent of the outstanding common shares of Magellan Interactive Multimedia, Inc. ("Magellan "), a broker of information using electronic media, for total consideration of 16,000,000 common shares with an assigned value of $5,000,000. The acquisition was accounted for using the purchase method.

The results of operations of Magellan from February 17 to December 31, 1995 are included in these consolidated financial statements. Net assets acquired were as follows:

	$
Net assets acquired	
Non cash working capital	(114,089)
Fixed assets	3,600,431
Goodwill	1,527,440
Long term debt	(49,005)
Net assets acquired, excluding cash	4,964,777
Less accrued acquisition costs	(32,270)
Cash	67,493
Net assets acquired for common shares	5,000,000

[B] Xentel Interactive Inc.

Effective May 17,1994, the Company acquired 100 percent of the outstanding common shares of Xentel Inc. ("Xentel"), a manufacturer of telemarketing equipment, for total consideration of 5,000,000 common shares with an assigned value of $1,145,000 and 1,000,000 warrants to acquire common shares at $0.40 per common share with no assigned value. The acquisition was accounted for using the purchase method.

The results of operations of Xentel from June 1 to December 31, 1994 are included in these consolidated financial statements. Net assets acquired were as follows:

	$
Net assets acquired	
Non cash working capital	595,709
Fixed assets	461,274
Goodwill	113,017
Net assets acquired	1,170,000
Less accrued acquisition costs	(25,000)
Net assets acquired for common shares	1,145,000

On March 6, 1995, Xentel and the Company, formerly Call 900 Inc., were amalgamated to form Xentel Interactive Inc.

3. INVENTORY

	1995	1994
	$	$
Component parts	**321,584**	184,248
Work in process	**—**	30,000
Finished goods	**54,237**	105,600
	375,821	319,848

4. FIXED ASSETS

		1995	
	Cost	Accumulated Depreciation	Net book value
	$	$	$
Telephone equipment	**19,315**	**11,340**	**7,975**
Office equipment and other	**51,873**	**17,418**	**34,455**
Computers	**371,834**	**131,541**	**240,293**
Software	**4,014,725**	**486,342**	**3,528,383**
Audiotext programs and systems	**148,750**	**60,112**	**88,638**
	4,606,497	**706,753**	**3,899,744**

		1994	
	Cost	Accumulated Depreciation	Net book value
	$	$	$
Telephone equipment	18,705	8,054	10,651
Office equipment and other	31,015	3,078	27,937
Computers	191,140	53,754	137,386
Software	300,000	35,000	265,000
Audiotext programs and systems	148,750	22,125	126,625
	689,610	122,011	567,599

5. INTANGIBLES

	1995	1994
	$	$
Goodwill at cost	**2,058,602**	531,162
Accumulated amortization	**(503,582)**	(132,036)
	1,555,020	399,126

6. SHARE CAPITAL

Authorized

Unlimited preferred shares without nominal or par value

Unlimited Class A common shares without nominal or par value

Issued	**1995**		**1994**	
	Number	$	**Number**	$
Common shares				
Balance, beginning of year	**16,378,000**	**1,928,251**	10,903,000	664,501
Issued				
For cash	**6,615,305**	**1,731,191**	—	—
For acquired fixed assets	**140,000**	**42,000**	—	—
On acquisition of Xentel Inc.	—	—	5,000,000	1,145,000
On acquisition of Magellan Inc.	**16,000,000**	**5,000,000**	—	—
Exercise of stock options	**258,334**	**78,750**	475,000	118,750
Elimination of deficit	—	**(601,443)**	—	—
Share issue costs	—	**(153,754)**	—	—
Balance, end of year	39,391,639	8,024,995	16,378,000	1,928,251

At June 10, 1995, the Company reduced its accumulated deficit through a reduction in its share capital of $601,444. This reduction was approved by shareholders at the Annual General meeting held on June 15, 1995.

Proceeds of $300,000 on a private placement of common shares issued on December 22, 1995 were held in trust by legal counsel until January 1996 and have been recorded as subscriptions receivable.

At December 31, 1995 the Company had 525,000 stock options outstanding. These options, held by Officers and Directors, are exercisable at $0.30 per common share and expire in June 1996.

The Company issued 3,887,000 warrants in connection with private placement of shares in 1995. At December 31, 1995, the Company had 4,887,000 warrants outstanding held by various shareholders and financiers. These warrants entitle the holders to acquire 4,887,000 common shares at an exercise price of $0.40 per share and expire between January 1996 and October 1996.

7. INVESTMENT TAX CREDITS

Research and experimental development costs are eligible for investment tax credits ("ITCs") at a rate of 20 percent. The ITCs may be applied against federal tax payable in the current or subsequent 10 year period.

The Company has ITCs available for carry forward which expire in the following years:

	$
2004	14,017
2005	66,179

The tax benefit of the ITCs have not been recognized in the financial statements.

8. INCOME TAXES

The income tax expense differs from the amounts that would be computed by applying the combined statutory Canadian federal and provincial income tax rates as follows:

	1995	1994
	$	$
Combined federal and provincial tax rate	**44.58%**	44.34%
Expected income tax recovery	**(1,068,337)**	(178,208)
Increase (decrease) in taxes resulting from:		
Non-deductible depreciation and amortization	**384,093**	61,796
Non-taxable portion of capital gain	**—**	(2,262)
Other	**6,990**	(1,873)
Recovery not recorded	**677,254**	142,919
Provision for income taxes	**—**	22,372

The Company has operating losses available for deduction against future taxable income of approximately $1,745,000 which expire in the following years: 1997 - $12,000; 1998 - $57,000; 1999 - $121,000; 2000 - $197,000; 2001 - $6,000; 2002 - $1,352,000. The income tax benefit of these losses has not been recognized in these financial statements.

9. LONG TERM DEBT

	1995	1994
	$	$
Convertible debentures	**320,000**	—
Bank loan	**21,122**	—
Lease obligations	**3,040**	—
	344,162	—

During the year, the Company raised $320,000 through the issue of convertible term debentures, with an interest rate of 7.5 percent per annum, payable bi-annually. The debentures are convertible into 1,066,664 common shares at a rate of $0.30 per share and have attaching warrants which entitle the holder to purchase 1,066,664 common shares at a purchase price of $0.40 per share. The debentures mature on is August 21, 1998. The holder may convert the debentures at any time if the entitlement is converted in whole. Further, the Company has the right to force conversion should the share price exceed $0.45 for any period of twenty consecutive trading days. A floating charge over all assets of the Company has been pledged as security.

The bank loan is repayable in instalments of $738 per month from January 10, 1997. The bank has a chattel mortgage over the Company's New Media assets.

10. SEGMENTED INFORMATION

The Company is involved in three distinct industry segments operating solely in the North American region.

The Audiotext business operates pay-per-use telephone services. Telephony builds and markets predictive dialing systems. The New Media business specializes in the use of CD-ROM, internet and website technology to carryout direct merchandising.

1995	Audiotext	Telephony	New Media	Corporate and Other	Total
Sales	**1,033,753**	**909,203**	**773,335**	**15,303**	**2,731,594**
Amortization and depreciation	**121,616**	**176,986**	**663,349**	**—**	**961,951**
Net income	**99,043**	**(738,748)**	**(1,711,805)**	**(44,940)**	**(2,396,450)**
Capital expenditures	**—**	**59,057**	**5,390,953**	**—**	**5,450,010**
Assets	**381,023**	**840,432**	**5,104,050**	**498,442**	**6,823,947**

1994	Audiotext	Telephony	New Media	Corporate and Other	Total
Sales	304,835	707,627	—	3,199	1,015,661
Amortization and depreciation	105,754	103,717	—	—	209,471
Net income	73,282	(450,001)	—	(47,565)	424,284
Capital expenditures	148,750	632,470	—	—	781,220
Assets	463,810	1,177,704	—	81,794	1,723,308

Sales generated in the New Media business segment are almost exclusively for export.

11. COMMITMENTS

The Company is committed to operating leases for office premises and equipment. Future payments are as follows:

	$
1996	11,643
1997	22,636
1998	23,536
Total	57,815

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in 1995.

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